REPORT OF EXAMINATION
OF THE

WESTERN GENERAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

Filed June 25, 2010

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Los Angeles, California
June 17, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

WESTERN GENERAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 5230 Las Virgenes Road, Suite 100, Calabasas, California 91302.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

COMPANY HISTORY

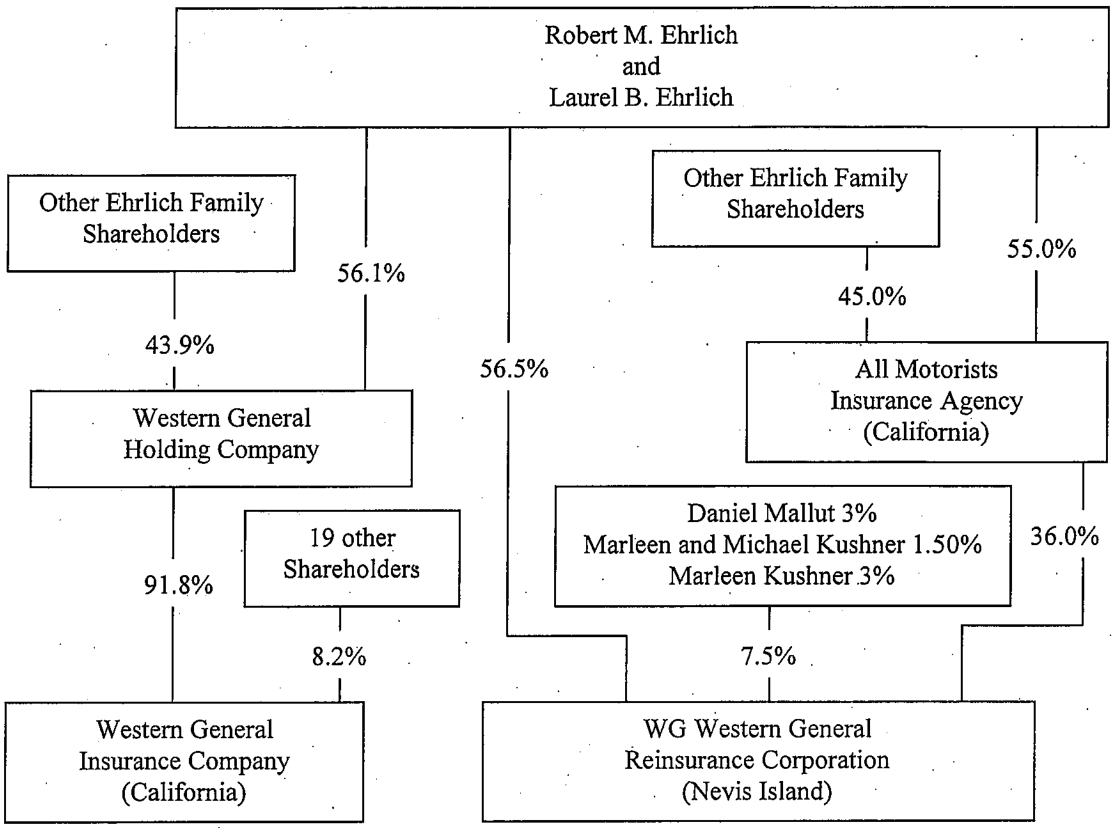
In December 2007, the California Department of Insurance approved the issuance of 3,000 shares of Series B Preferred Stock with a par value of $1,000 per share. Robert and Laurel Ehrlich purchased 1,800 shares for $1.8 million and the remaining 1,200 shares were purchased by other Ehrlich family members for $1.2 million. The proceeds of the sale of the Series B Preferred Stock were contributed to the Company's preferred capital stock, increasing its surplus as regards to policyholders by $3.0 million.

During the examination period, the Company declared and paid ordinary dividends on preferred stock as follow:

Year	Amount
2006	$ 429,061
2007	433,782
2008	549,924
Total	$ 1,412,767

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiaries, depicts the Company's relationship within the holding company system:



Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
John Albanese Thousand Oaks, California	Chief Financial Officer and Treasurer Western General Insurance Company
Laurel Ehrlich Westlake Village, California	Director of Human Resources Western General Insurance Company
Robert Ehrlich Westlake Village, California	Chairman of the Board, President and Chief Executive Officer Western General Insurance Company

Name and Residence	Principal Business Affiliation
Mark Goldsmith Thousand Oaks, California	Vice President of Operations Western General Insurance Company
Marleen Kushner Westlake Village, California	Secretary Western General Insurance Company
Daniel Mallut Calabasas, California	General Counsel and Executive Vise President Western General Insurance Company

Principal Officers

Name	Title
Robert Ehrlich	Chairman of the Board, President and Chief Executive Officer
Daniel Mallut	General Counsel and Executive Vice President
John Albanese	Treasurer and Chief Financial Officer
Marleen Kushner	Secretary

Management Agreements

General Agent Servicing Agreement: The Company is party to a General Agent Servicing Agreement with All Motorist Insurance Agency (AMIA), an affiliate, dated July 1, 1983. Under this agreement, AMIA has authority to process policies and claims, and collect premiums. The Company pays a policy fee to AMIA for each automobile extended warranty, auto liability or property damage policy processed. In addition, the Company pays a claim-servicing fee to AMIA for each loss processed on its behalf. The agreement has been amended on various occasions to increase commission levels. For 2006, 2007, and 2008, the Company paid servicing agent fees to AMIA of $7,287,339, $ 9,707,733, and $9,038,819, respectively.

Consolidated Income Tax Agreement: Beginning in 2005, the Company was included in the consolidated federal income tax return of its parent, Western General Holding Company (WGHC). However, the Company did not have a consolidated income tax agreement in place with WGHC. Statements of Statutory Accounting Principles (SSAP) No. 10, Paragraph 12, Section b, states that income tax transactions between affiliated parties shall be recognized, if such transactions are pursuant to a written income tax allocation agreement. The Company was in violation of SSAP No. 10, Paragraph 12, Section b as well as California Insurance Code (CIC) Section 1215.5(b)(4) that requires submission of the agreement to the California Department of Insurance (CDI) for prior approval. It was recommended during the examination that the Company comply with SSAP No. 10, Paragraph 12, Section b, and CIC Section 1215.5(b)(4). The Company submitted the agreement to the CDI subsequent to the examination date.

Cost Allocation Agreement: The Company and various affiliates share office expenses and many other administrative and support costs. These costs are allocated to the Company based on the Cost Allocation Agreement dated August 15, 2006. Allocation of costs is determined based on actual time spent performing services through a two week timesheet study performed annually. The shared costs allocated to the Company totaled $1,691,256, $1,781,244, and $2,306,004 for the years ended December 31, 2006, 2007, and 2008, respectively. The agreement was approved by the CDI on July 2006.

CORPORATE RECORDS

California Insurance Code (CIC) Section 735 states that the Company must inform the board members of the receipt of the examination report. The board should be informed of the report both in the form first formally prepared by the examiners and in the form as finally settled and officially filed by the commissioner. The board must also enter that fact in the board minutes. A review of the board minutes disclosed that, while the officially filed report was presented to the board, the first formally prepared draft by the examiners was not.

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of CIC Sections 1200 and 1201. The Company's minutes failed to document the authorization or approval of its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts and the values of the securities were not included as required under CIC Section 1201.

It was recommended during the examination that the Company implement procedures to ensure future compliance with CIC Sections 735, 1200, and 1201. Subsequent to the examination the Company discussed and recorded in its minutes the receipt and findings in the draft report of examination in compliance with CIC Section 735. In addition the board approved all of the purchase and disposal of investments in compliance with CIC Section 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance. The following is a listing of the states in which the Company is licensed:

Alabama	Idaho	Minnesota	Rhode Island
Alaska	Illinois	Mississippi	South Carolina
Arizona	Indiana	Missouri	Tennessee
Arkansas	Iowa	Nevada	Texas
California	Kansas	New Jersey	Utah
Colorado	Kentucky	New Mexico	Virginia
Connecticut	Louisiana	New York	Washington
Delaware	Maine	North Carolina	West Virginia
Florida	Maryland	Oklahoma	
Georgia	Massachusetts	Oregon	
Hawaii	Michigan	Pennsylvania	

The Company is also licensed in the District of Columbia.

The Company writes specialty dealer originated non-standard automobile insurance, generally written for a period of 30 days under the dealer's "buy and drive" program, and includes physical damage and liability coverage. The option to extend this policy beyond the 30 day period is also offered to the insured. In 2001, the Company began writing non-standard private passenger automobile in California outside of the core of the dealership-generated business. This has now become the Company's largest business segment. Vendor Single Interest (collateral protection) is also provided for banks and finance companies. The writing of mechanical breakdown insurance has declined significantly, by design, and the Company wrote modest amounts of auto protection and preventative theft coverage.

In 2008, the Company wrote $64.8 million of direct premiums. Of the direct premiums written, $59.1 million or (91.2%) was written in California, $1.7 million (2.6%) was written in Nevada, $1.2 million (1.8%) was written in Florida and $2.9 million (4.5%) was written in the remaining states. All business is produced through independent agents, brokerage firms, and finance companies.

On December 30, 2001, the Company appointed Cartel Marketing, Inc. (Cartel) as a general agent. In 2008, Cartel produced 39.4% of the gross premiums written.

Effective November 1, 2006, the Company appointed Multi-State Insurance Services, Inc. (Multi-State) as a program manager to sell personal automobile insurance in California. Effective November 8, 2006, the Company appointed Freedom National Insurance Services, Inc. (Freedom) as a general agent to sell private passenger automobile insurance. In 2008, Multi-State and Freedom produced 5.5% and 3.4%, respectively, of the direct premiums written by the Company.

The Company increased its writings in Arizona utilizing Freedom beginning in December 2008 and utilizing multiple producers in March 2009. The Company plans to expand its writings in Texas in 2010.

REINSURANCE

Assumed

The Company has a 100% Quota Share reinsurance assumed treaty with Old American County Mutual Fire Insurance Company (Old American) for automobile insurance business written in Texas through Cartel Marketing, Inc. dba, Insure Express Insurance Services. Although the Company is admitted in Texas, it has elected to write business through Old American, a Texas domiciled company. The Company pays 2.5% of premiums in fronting fees plus the applicable premium taxes to Old American. The assumed reinsurance premium during 2008 was $1.9 million.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2008:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Excess of Loss	Munich Re America	$50,000 each loss occurrence	$250,000 each loss occurrence
20% Quota Share 25% Quota Share Private Passenger Broker and Cartel Progams	Munich Re America WG Western General Reinsurance Corporation of Nevis Island	55% each loss occurrence	45% each loss occurrence
45% Quota Share Commercial Physical Damage, Excluding Cartel Business	WG Western General Reinsurance Corporation of Nevis Island	55% each loss occurrence	45% each loss occurrence

As of December 31, 2008, the Company ceded $ 14.7 million to its affiliate WG Western General Reinsurance Corporation of Nevis Island (WGRC). The Company's reinsurance recoverables for all ceded reinsurance totaled $29 million, or 12.5% of surplus as regards policyholders.

A review of the Company's reinsurance agreements currently in force disclosed that they do not comply with California Code of Regulations (CCR), Title 10, Section 2303.13. The agreements did not include an "entire agreement clause" as required for all contracts covering property and casualty business where the ceding insurer is a domestic company. It is recommended that the Company amend the agreements to comply with CCR Section 2303.13.

A review of the Company's reinsurance agreements with its affiliate, WG Western General Reinsurance Corporation, disclosed that the agreements were not filed with the California Department of Insurance (CDI). CIC Section 1215.5(b)(3), states that reinsurance agreements with affiliates be submitted to the CDI for review. It was recommended during the examination that the Company submit the agreements to the CDI for approval pursuant to CIC Section 1215.5(b)(3). The reinsurance agreements were filed with the CDI subsequent to the examination date.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 44,132,987	$	$ 44,132,987	
Stocks:				
Common stocks	1,989,333		1,989,333	
Cash and short-term investments	7,940,173		7,940,173	
Receivable for securities	1,150,000		1,150,000	
Investment income due and accrued	550,948		550,948	
Uncollected premiums and agents' balances In course of collection	4,575,440		4,575,440	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,847,509		13,847,509	
Reinsurance recoverable on loss payments	4,391,123		4,391,123	
Net deferred tax asset	1,065,753		1,065,753	
Aggregate write-ins for other than invested assets	193,299	193,299	0	
Total assets	$ 79,836,565	$ 193,299	$ 79,643,266	

Liabilities, Surplus and Other Funds			
Losses		$ 11,259,074	(1)
Loss adjustment expenses		1,474,576	(1)
Commissions payable, contingent commissions and other similar charges		410,014	
Other expenses		434,879	
Taxes, licenses and fees		(1,057,993)	
Current and foreign income taxes		(420,893)	
Unearned premiums		14,627,667	
Dividends declared and unpaid: Stockholders		145,604	
Ceded reinsurance premiums payable		4,266,625	
Funds held by company under reinsurance treaties		17,251,662	
Total liabilities		48,391,215	
Common capital stock	$ 3,105,000		
Preferred capital stock	7,640,000		
Gross paid-in and contributed surplus	1,226,000		
Unassigned funds (surplus)	19,508,851		
Less treasury stock, at cost – 552 shares common	(227,800)		
Surplus as regards policyholders		31,252,051	
Total liabilities, surplus and other funds		$ 79,643,266	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$ 43,407,817
Deductions:		
Losses incurred	$ 22,448,891	
Loss expense incurred	3,733,492	
Other underwriting expenses incurred	19,026,259	
Total underwriting deductions		45,208,642
Net underwriting loss		(1,800,825)
Investment Income		
Net investment income earned	$ 2,243,729	
Net realized capital gains	12,478	
Net investment gain		2,256,207
Other Income		
Aggregate write-ins for miscellaneous income	$ 4,072	
Total other income		4,072
Net income before federal income taxes		459,454
Federal income taxes incurred		(336,774)
Net income		$ 796,228

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$ 31,693,585
Net income	$ 796,228	
Change in net unrealized capital losses	(1,113,240)	
Change in net deferred income	(875,327)	
Change in nonadmitted assets	25,729	
Change in provisions for reinsurance	1,275,000	
Dividends to stockholders	(549,924)	
Change in surplus as regards policyholders		(441,534)
Surplus as regards policyholders, December 31, 2008		$ 31,252,051

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Surplus as regards policyholders, December 31, 2005, per Examination			$ 26,895,104
	Gain in Surplus	Loss in Surplus	
Net income	$3,789,766	$	
Change in net unrealized capital losses		783,213	
Change in deferred income tax		761,060	
Change in nonadmitted assets	524,221		
Capital changes: Paid-in	3,000,000		
Dividends to stockholders		1,412,767	
Totals	$ 7,313,987	$ 2,957,040	
Net increase in surplus as regards policyholders for the examination			4,356,947
Surplus as regards policyholders, December 31, 2008, per Examination			$ 31,252,051

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based upon a review conducted by a Casualty Actuary from the CDI the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for the purpose of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management Agreements – Consolidated Income Tax Agreement (Page 5): It was recommended during the examination that the Company comply with Statements of Statutory Accounting Principles No. 10, Paragraph 12, Section b and California Insurance Code (CIC) Section 1215.5(b)(4), which requires submission of the agreement to the California Department of Insurance (CDI) for prior approval. The Company submitted the agreement to the CDI subsequent to the examination date.

Corporate Records (Page 5): It was recommended during the examination that the Company implement procedures in its board meetings to ensure compliance with CIC Sections 735, 1200, and 1201. The recommendations were implemented by the Company subsequent to the examination date.

Reinsurance - Ceded (Page 8): It is recommended that the Company amend the reinsurance agreements to comply with California Code of Regulations, Title 10, Section 2303.13 by including an "entire agreement clause."

It was recommended during the examination that the Company submit the reinsurance agreements to the CDI for approval pursuant to CIC Section 1215.5(b)(3). The Company submitted the agreements to the CDI subsequent to the examination date.

Previous Report of Examination

Bonds (Page 11): It was recommended that the Company move three securities with an aggregate amount of $1.5 million to a qualified custodian as defined in California Insurance Code (CIC) Section 1104.9. The Company is now in compliance with CIC Section 1104.9.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/____________________

Cuauhtémoc Beltran, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California